

Message Text

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NSAE-00 NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SP-03 FEA-02

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SUBJECT: EC CAP FOR SOYBEANS

REF: (A) STATE 246673 (1973); (B) BONN 4886;
(C) EC BRUSSELS 1855; (D) STATE 41383; (E) BONN 4926;
(F) EC BRUSSELS 2305

1. IN PARA 2, REF (A), WE INDICATED US WILLINGNESS AWAIT FINAL COMMISSION RECOMMENDATIONS BEFORE MAKING FURTHER REPRESENTATIONS ON US POSITION RE EC PRODUCTION SUBSIDIES AND US GATT RIGHTS. EC COUNCIL ADOPTION OF "PRINCIPLE OF A CAP FOR SOYBEANS" AND CONSIDERATION OF COMMISSION'S NEW PROPOSAL FOR A SOYBEAN CAP BY AG COUNCIL MEETING APRIL 29-30 IS SUFFICIENT CAUSE FOR US TO AGAIN DISCUSS PROPOSED EC SOYBEAN CAP. (REF F) IT IS OUR UNDERSTANDING THAT THIS NEW PROPOSAL PROVIDES TARGET PRICE WHOSE LEVEL IS NOT YET SPECIFIED (FYI AN EARLIER REPORT HAD INDICATED A MINIMUM SUPPORT PRICE OF 222 UNITS OF ACCOUNT PER TON). IF WORLD MARKET PRICES ARE BELOW THE TARGET PRICE, A DEFICIENCY PAYMENT EQUAL TO THE DIFFERENCE WOULD BE PAID TO PRODUCERS. THERE WOULD BE NO INTERVENTION PRICES OR MEASURES APPLIED TO IMPORTS. THE CAP FOR SOYBEANS COULD BECOME EFFECTIVE AS EARLY AS NOVEMBER 1, 1974.

2. ACTION ADDRESSES WHICH HAVE NOT DISCUSSED QUESTION RECENTLY ARE THEREFORE REQUESTED USE ANY APPROPRIATE

OPPORTUNITY PRIOR AG COUNCIL MEETING TO DISCUSS ADVERSE ECONOMIC CONSEQUENCES OF POTENTIAL EC DECISIONS REGARDING A CAP FOR SOYBEANS THAT COULD LEAD TO PRODUCTION SUBSIDIES AT HIGH LEVELS. YOU SHOULD ASSUME THAT MEMBER STATES ARE WELL AWARE OF US POSITION ON EC SOYBEAN CAP AND AVOID LENGTHY ARGUMENTATION RE GATT LEGALITY OF EC SUBSIDIES ON SOYBEANS SINCE IMMEDIATE US OBJECTIVE IS TO GIVE EC MAXIMUM INCENTIVE TO MODIFY, IF NOT REJECT, PROPOSED SOYBEAN CAP IN WAY WHICH SAFEGUARDS US INTERESTS. FOLLOWING INFORMATION MAY BE DRAWN ON AS APPROPRIATE.

3. REF (B) INDICATES EC PRODUCTION SOYBEANS 1973 ONLY 800 TONS. REF (F) INDICATES AN EXPECTED 4,000 HECTARES OF SOYBEANS IN 1974-75. SINCE EC CLEARLY NOT SOYBEAN PRODUCER, US WILL HAVE NO DIFFICULTY IN ESTABLISHING LIMITED OFFICIAL USE

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THAT FUTURE INCREASES IN SOYBEAN PRODUCTION DUE DIRECT STIMULUS OF SUBSIDIES PROPOSED IN THE CAP. US BELIEVES THAT EC MAY BE UNDERESTIMATING SOYBEAN PRODUCTION POTENTIAL IN ROMMUNITY, A MISTAKE THAT COULD PROVE ENORMOUSLY COSTLY TO COMMUNITY IN THE LONG RUN. SUFFICIENTLY HIGH SUBSIDY COULD MAKE SOYBEANS AN ATTRACTIVE ROTATION CROP SUITABLE FOR WIDESPREAD CULTIVATION. IN GENERAL, SOYBEANS CAN BE GROWN ANYWHERE CORN CAN BE

GROWN. IN 1973 AN ESTIMATED 3.0 MILLION HECTARES WAS PLANTED TO CORN (ABOUT 95 IN FRANCE AND ITALY) AND AN ADDITIONAL 8.9 MILLION HECTARES WERE PLANTED TO FORAGE CROPS ON ARABLE LAND IN FRANCE AND ITALY (PRESUMABLY MOSTLY IN CROP ROTATION). ASSUMING SOYBEAN PRODUCTION AT 20 QU/HA PER HECTARE (30 BUSHEL PER ACRE), --REF (F)-- EVERY MILLION HECTARES PLANTED TO SOYBEANS IN COMMUNITY WOULD PROVIDE TWO MILLION TONS (73 MILLION BUSHEL) OF SOYBEANS TO SUBSIDIZE.

4. THE US BELIVES THAT THE LEVEL OF PRICE SUPPORT INDICATED IN COMMISSION PROPOSAL SHOULD ALSO CONSIDERABLY WORRY EC COUNTRIES. IF, AS ANTICIPATED, WORLD PRICES OF SOYBEANS CONTINUE TO FALL DUE TO IMPROVING PROSPECTS FOR PROTEIN PRODUCTION, A PRICE OF APPROXIMATELY \$7.25 PER BUSHEL (222 U.A. PER MT AS SUGGESTED IN INITIAL COMMIS- SION PROPOSAL) WILL SOON STAND FAR ABOVE WORLD MARKET PRICE, AS IS TRADITIONALLY THE CASE FOR OTHER COMMUNITY OILSEED CROPS SUCH AS REAPESEED AND SUNFLOWER. SOYBEAN SUPPORT PRICE AT THIS LEVEL WOULD BE 2.5 TIMES NEW CORN SINGLE INTERVENTION PRICE OF 89.46 U.A PER METRIC TON. IN US, SOYBEAN/CORN PRICE RATIO OF 2.5 IS CONSIDERED TO SLIGHTLY FAVOR SOYBEAN OVER CORN PRODUCTION. THIS IS NOT TO IMPLY THAT SOYBEANS WOULD COMPETE ONLY WITH CORN IN EC CROPPING PATTERNS SINCE SOYBEANS MIGHT SUPPLANT SOME FORAGE CROPS PRESENTLY GROWN ON ARABLE LAND NOTED IN PARA 3 ABOVE.

5. US BELIEVES THAT ABOVE INFORMATION SHOULD BE CONSIDERED CAREFULLY BY EC COUNTRIES WHICH HAVE APPARENTLY ACCEPTED VALIDITY OF ESTIMATES THAT 1978 EC SOYBEAN PRODUCTION POTENTIAL ONLY 100,000 TONS (REF B, PARA 4) AND THAT MAXIMUM COST OF SUBSIDIES 5 MILLION U.A. (REF E, PARA 5). THERE IS, OF COURSE, STRONG CONTRADICTION BETWEEN 100,000 LIMITED OFFICIAL USE

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TON FIGURE (ALLEGED TO AMOUNT TO ONLY ONE PERCENT OF PROJECTED DOMESTIC EC CONSUMPTION IN 1978) AND FRENCH ARGUMENT THAT SOYBEAN CAP IS NEEDED TO MAKE COMMUNITY LESS DEPENDENT ON IMPORTS.

6. US PROTEIN AVAILABILITY ESTIMATES CONTAINED IN REF (D) CONTINUE TO APPEAR VALID AND SHOULD ALLAY ANY APPREHENSION OVER ABILITY TO MEET EC IMPORT REQUIREMENTS DURING THE NEXT YEAR.

7. RE REF (E), PARA 5, US SEES NO PARALLEL BETWEEN CURRENT SOYBEAN CAP ISSUE AND COMMUNITY SUPPORT OF OLIVE OIL PRODUCTION WHICH INDIGENOUS TO SOUTH
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